# EXHIBIT 12

# 'The Time For Talking Is Over'



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by BW Online Bureau



Running an airline steeped in losses, neck deep in debt, under the intense scrutiny of the media and dreaded by customers is an unenviable job. But those are not the only problems Air India's new chairman and managing director, **Arvind Jadhav**, 53, has to contend with. He also has to deal with recalcitrant unions, employees who are not too happy with him, and an excess of bureaucratic red tape. Three months after he took charge (4 May 2009), though, Jadhav is not letting any of those scare him. He has what he thinks is a clear game plan for turning around an airline Rhat has firmly refused to turn around in the past.

Jadhav says the day he took over he found a balance sheet in tatters, a declining market share, poor loads, poor on-time performance, business-class seats occupied only by the airline's own staff and their families, aircraft flying to routes that do not make money and not flying to routes where everyone else seems to be making money. In other words, a "typical" public-sector organisation that was spiralling down towards a debt trap. Its net worth is slowly, but surely, getting eroded. To add to this, he found an "organisation where people felt nothing has gone wrong" and "that they were doing their best". Post-merger, there are two people for every activity of Air India, no single chain of command and a hugely excess pampered staff.

Jadhav has put forward a proposal to the Centre seeking a hike in equity to Rs 10,000 crore in a phased manner and says that the airline needs a loan of around Rs 10,000 crore (government guaranteed or zero-coupon interest) to tide over the present crisis. What he is likely to get will be clear after the committee of secretaries meeting on 25 August. The finance ministry is also being asked to intervene and discuss a deferment of loan repayment for two years with the US EXIM bank.

If the government allows Jadhav a free hand and lets him do what he thinks needs to be done, the next few months in Air India could be worth watching. Excerpts from his first interview to the media since he took charge, with BW's **Anjuli Bhargava**:

**Q: Is your total staff strength a worry?**

A:Any like-to-like company has around 12,000 staffers; we have 32,000. So, yes, we have around 20,000 excess staff. The explanation I often hear is that we do everything ourselves unlike the private companies, but that is not true. We also use contracted labour and are outsourcing everything we can. Despite that I have 32,000 employees on the staff, which works to 226 people for every aircraft. I would like to have an aircraft-employee ratio of 1:90. In a downturn, every airline sends back leased planes, disposes of aircraft. Now, in any airline, if aircraft are reduced, staff will also have to be pared. This does not happen in Air India.

What is even more worrying is that there is no crisis in the airline as far as employees are concerned. The staff doesn't see any problem at all. Meet the people, see their lifestyle, see the way they work. The entire world is going through recession. Aviation is getting battered. Is there any dent in any average Air India person's lifestyle? This is the best job in the world to have. Recession-proof.

**Q:What about your wage bill?**

A:Jet, for instance, has a wage bill of around Rs 1,200 crore a year and ours is Rs 3,600 crore, with roughly the same number of aircraft. But in Air India most categories are very highly paid, and fiercely resist any cut in allowances and perks. But with 20,000 excess staff and a downturn to boot, either they have to take a wage cut or half the staff has to go. You can either save your perks or your job.

I have to renegotiate all contracts with every union. People who have been given the job of negotiating with the union are former union members. What do you expect? I see no reason why we should pay a pilot, who is sitting at home, 80 hours of flying allowance. Pilots and crew are 15 per cent of my staff, but 50 per cent of the yearly productivity-linked incen-tives (PLI) goes to them. How can a company that is making losses pay bonuses (PLIs) of up to Rs 1,500 crore a year? Employees of the organisation, who want to be so insulated from the rest of the world, should join insurance. Here, you have to face the music.

I said on my first day itself — when I looked at the balance sheet — that this organisation is ready for a strike (decisions will have to be taken which will give employees reason to strike work). Pilots and employees have to necessarily take the pain. The CMD alone cannot take the pain.

**Q:But you can't just fire people...**

A:Why? If I find in 32,000 people, 8,000 are medically unfit, you think I will keep them? I am running a corporation under the Government of India Industrial Disputes Act. There is no special law applicable to us. Just because we are a public sector company does not mean we cannot fire redundant staff. There has been a freeze on recruitment for a while. Despite that, we have recruited.

Let me say this very clearly. If Air India had been private, it would have closed down long ago. Then what would happen to all the staff? Surplus staff will retrain or go home.

**Q:But you cannot retrain and absorb all the staff. There won't be enough jobs within the airline...**

A:Why not? We are an organisation where hardly any effort is put into marketing. I have asked my staff to focus on getting the maximum yields. For instance, on a Delhi-New York route, if a top-level government official travels, I get Rs 4 lakh for a first-class seat. The same seat is offered to corporates after discounts and after they brow beat us into offering our best fare at Rs 2.30 lakh. Now, who should I give the red carpet treatment to? We have to rejig our marketing totally.

**Q:But people say morale is already very low in Air India.**

A:Morale is low because their perks are going to be hit. It is like instead of drinking Evian water, you have to swallow Bisleri! A 15-day pay deferment and morale is low — that is the extent to which you are pampered. We have to get work done from those who don't want to work or are not used to working. Obviously, morale will be low.

**Q:The integration has resulted in the organisation getting even more top-heavy than it was before, hasn't it?**

A:Yes. It is like two magazines being put together with two editorials, with two letters pages, two last/end columns run by two editors. There is a duplication of every activity, and no single chain of command. So, clearly the organisation will not function properly.

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**Q:What then is your biggest priority?**

A:Cutting costs. We have to look at every nook and corner, every square inch of space, every minute of our time. My revenues are Rs 14,000 crore and my costs are Rs 19,000 crore. I need to cut costs to the magnitude of Rs 6,000 crore annually. It is not that I can raise fares and increase revenues overnight. I can't simply raise the tariffs. There is severe competition. Competitors are coming in with younger aircraft. Any talk from me that I will increase revenue is literally kite flying.

We have 22 offline stations (where we no longer fly), but there is staff at all these stati-ons. We need to close these and bring the staff back (Jadhav has recently asked four execu-tive directors in Dubai, Paris, New York and Hong Kong to return). We need to give up all leased office space wherever possible and lease out space where it will fetch us revenue. We can't have engineers sit hours away from the airport (say at Air India's Nariman Point building).

We have an alarming number of aircraft and engines on stand by. If you have a 70-80 air-craft fleet, you may have four-five aircraft on standby. You cannot have 25 aircraft as stand-by. You may keep two spare engines ready in case of any problem. We have 33 engines on the ground not being used. It is unsustainable.

I have to sell my J- and first-class seats more aggressively. Do you know that at any point close to 15 per cent of my capacity goes in servicing my own employees and their families? If you tried to book a J-class seat, you often will find that there are no seats available. Why? Because they are not being sold aggressively. Then we will be told that since they are empty, let the staffers fly. I have stopped business-class travel for many categories. I have to get them to vacate the seats, and then sell them aggressively.

Are you aware that we lose Rs 250 crore a year on our Delhi-New York flight simply because I never sell my business and first class? The few seats that are occupied are usually upgrades or staff and their kith and kin. But if I look at my revenue potential from only J and first class, it is Rs 418 crore annually. And how much do I realise — a measly Rs 50 crore a year. Forget the economy revenue. If I concentrate on selling just my J and first class and get Rs 250 crore a year, I can break even on the flight. As of now, Rs 500 crore of cash deficit every year is on account of the two non-stop flights alone — Mumbai-New York and Delhi-New York.

**Q:Where all can you cut costs?**

A:Let me give you one example. I recently got a complaint from a J-class passenger that his choice of meal was not available on the flight. I decided to investigate and found that 90,000 extra meals were lifted from Delhi over a six month period! What happens is this. We offer an average of 800 J-class seats from Delhi. Now, just six hours before the flight, the booking show that there are 750 booked on J class with a certain meal preference. The caterer is, therefore, asked to supply 750 or 800 meals.

The actual position is very different. Actually, only 400 people are travelling on J class. But these 350-400 extra meals are never accounted for. No one knows where they go. They are not returned. Now, look at what this means for me. It means extra load of me-als on the flight resulting into extra fuel cost to carry that load, it means the actual price of the meals and it means I lose the J- class passenger — which J-class passenger will fly an airline that fails to provide even his choice of meal! Also, my pre-departure and post-arrival facili-ties for J and first-class passengers are not up to the mark. I need better lounges, but I don't have Rs 100 crore to upgrade them. So if I manage to cut costs somewhere, I can improve the lounges and try and attract this traffic.

Let me give you another example. My flight planning is done manually. If I can do it through a flight-planning operating system, it will suggest the best and shortest route that consumes the lowest fuel. I can save on fuel. But I don't have that Rs 45 crore that I need to invest for an automatic flight-planning system.

If I look at the company as a whole, my current capital requirement is Rs 5,000 crore — not including aircraft acquisition — if we are to survive and go into 2011 and 2012.

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**Q:So will you discontinue some of the uneconomic flights?**

A:Only 13 of my flights make money today. Delhi-Leh, Kolkata-Jeddah, for example — 5 per cent of the total flight schedule. If I don't fly any aircraft, I save Rs 3,000 crore straight away. About 98 per cent of my flights are uneconomic. Does that mean I should discontinue all the flights? Where will that leave me? On the contrary, I am looking at what flights the competition is operating and where they are making money and why we are not there. Take the example of Delhi-Kuala Lumpur. Sometime ago Air India had 21 flights weekly; now it has zero. Malaysian Airlines has 14 flights a week and manages to make money. It's a Catch 22 situation. We withdraw a flight because we fail to make money on it. Jet or other foreign carriers promptly fill the route and manage to make money. Why can they make money and we can't? If I cut a route and can send 200 people home, then it may make sense for me to stop a flight. Otherwise, it doesn't.

**Q:Are you saying you need all the planes you have ordered? Will you relook at that? It will add heavily to your debt...**

A:You need to keep the perspective in mind. Air India is running with a very old fleet — average age of aircraft is 10 years. Worldwide airlines try and keep their age below six years. Jet is 4.5, Indigo wants to keep its 3.5. We run grand old daddies. If the average age of my aircraft is 3.5 years and then I buy 111 new planes, I am looking at capacity expansion. But here is an organisation that is trying to replace its aircraft. For 20 years, the airline bought no aircraft. We need to reduce the age to at least six years. We are in a replacement mode, not in a capacity expansion mode. What about the 20 years when capital acquisition was zero, depreciation was zero, interest payments were zero? So, even a small operational profit showed up as a net profit. But things have changed today. Even an old shop has to renovate in such circumstances.

In any case, B787 — which is the bulk of my purchase — is delayed by the company itself. So where am I? Why does the media only criticise every action? If I buy planes, why are you buying planes? If I don't buy planes, why are your planes so old? If I change the upholstery, why are you changing it? If I don't, why aren't you changing it, it is so dirty? It is difficult to run this kind of high-profile public sector entity that is under intense public scrutiny. If you act, you are questioned. If you don't act, you are questioned.

**Q:What about on-time performance?**

That's been a big problem with your airline.

A:A better on-time performance will help me sell economy seats. So we are pushing for accountability documents. We are

identifying 100 top routes and keeping a record of the worst 5 per cent of flights in terms of on-time. We record the name of the flight captain, the engineer on the flight and so on. Now, if your name appears repeatedly on delayed flights, we will first counsel you, then the next month we will cut all your allowances, and the third month terminate your services. Let them go to court (once termination happens). The time for talking is over.

**Q:What kind of assistance do you need from the government?**

A:First of all, let me say this. Asking the promoter to put in equity in a company that is so highly leveraged is no bailout. Any corporate will try and substitute its high-cost loans by low-cost loans; every firm will look towards capital infusion to service its capital expenditure; no organisation is going to do a 100 per cent debt funding for capital acquisi-tion and if it does, it will be unserviceable. I can either go to the shareholder or go to the market. My job is to inform the shareholder of the situation. The debt of the company is 100 times the equity. This is unsustainable.

**Q:Operationally, what else do you need to do?**

A:We have to have a single code. We are still operating on two codes and we are the laughing stock of the world. Airlines are interested in code share primarily to service the domestic market (erstwhile Indian Airlines network). In fact, let me say this very clearly. Had this merger not happened, Air India would have died.

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